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# Presentation to the Joint Standing Committee on Appropriations and Financial Affairs Regarding Single Audit Report for FY 2004

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# Joint Standing Committee Appropriations and Financial Affairs

Department of Audit  
Neria R. Douglass, JD, CIA, State Auditor  
January 19, 2006

# Single Audit Report for FY 2004

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- Each year the Maine Department of Audit performs the Single Audit of the State of Maine, qualifying the state to receive over **\$2.6 Billion (FY 2004) in federal assistance** for specific grants and programs. We audit programs that comprise 91% of that amount.
- Audit examines the State's financial statements, internal control systems and compliance with laws and regulations. We also report on individual federal programs, auditing 25 for FY 2004.
- 81 findings:
  - 77 reportable conditions (internal control and/or noncompliance with federal requirements);
  - 8 are material weaknesses (internal control and compliance) resulting in a qualified opinion for 3 federal programs
  - 4 financial statement findings (capital assets, lottery receivables, interfund payables, receivables & transfers)

# Department of Audit

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- Institutional knowledge currently 210 years
- Audit findings form basis of other investigations, e.g. Adoption Assistance audit
- Audit findings prevent future questioned costs
- Praise from federal auditors in 2005 (QCR)
- Independent, non-partisan creation of the Legislature
- Provides accountability in the Executive Branch
- 9 CPA, 11 CIA, 2 CISA, 2 JD, 6 other advanced degrees
- Unparalleled professional assessment of program compliance and financial statement presentation

# Communication of Findings

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- A priority of my Administration as State Auditor is to improve the communication of audit findings to all interested parties. I have or will meet with the various Committees of Jurisdiction to report and discuss those findings relating to the policy areas covered by the Committees.

# Delivery of Single Audit Report 2004

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- Field work for the FY 2004 Financial Statement Opinion was completed as of March 18, 2005: it was reported April 15, 2005, **51 days earlier than the prior year.**
- The 2004 Single Audit Report was complete as of May 16, and issued June 30, 2005, **30 days earlier than the previous year.**
- A copy was delivered to the Governor, each State Legislator, the State Law Library, each Commissioner, agency accountants, and the federal government.
- Audit reports for the years 2000 – 2004 are posted on the internet at: **<http://www.maine.gov/audit/reports.htm>**

# Delivery of Single Audit Report 2004

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- To personally communicate findings, the State Auditor met with:
  - The Governor,
  - President of the Senate,
  - Speaker of the House of Representatives,
  - Commissioner of Health & Human Services, a
  - The Commissioner of Administrative & Financial Services
  - Committee on Health & Human Services

# General Summary

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- An **unqualified opinion** on the financial statements effective March 18, 2005: the State of Maine's financial statements fairly present its financial position and the results of operations for the year ended June 30, 2004. Third consecutive year reflects improvements in accounting & financial reporting.
- We audited 25 programs in FY 2004 that covered \$2.4 Billion in federal assistance, of which 11 were DHHS programs that covered \$1.8 billion
- **Qualified opinion on compliance** with federal regulations for 3 programs: Foster Care, Social Services Block Grant and the Child Care Cluster.



# General Summary Continued

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- The State administers over 300 different federal programs, 82 of them at DHHS
- Of 25 (\$2.4 B) programs audited, 22 programs were in compliance in all material respects, although we identified 77 control deficiencies.
- \$17.9 Million of the \$18.7 Million in questioned costs in the Single Audit for FY 2004 are in DHHS
- Other questioned costs at DOL and DAFS

# Dialogue with DHHS, DAFS & OSC

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- Audit is responsible for following-up on significant audit findings. To explain concerns in detail, the State Auditor has met several times with the:
  - Retired Commissioner Nicholas of Health and Human Services
  - Commissioner Wyke of Administrative and Financial Services
  - New Internal Audit Director at DHHS
  - New Internal Audit Director at OSC

# Dialogue with DHHS, DAFS & OSC Continued

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***The State Auditor asked for regular meetings with DHHS Commissioner Nicholas and staff in the summer of 2005. Great progress was made.*** Example: detailed discussion of specific convoluted account structures, cost allocation plan, financial management issues.

***Commissioner Nicholas clearly directed staff to provide solutions, not excuses. The Commissioner of DAFS added strength, vision and coordination to this problem-solving.*** Some culture change began. Resolving problems identified in the FY 2004 Single Audit is clearly a top priority for Governor Baldacci and his administration. I will meet with the panel advising him on qualities needed in a new commissioner to continue this growth and culture change.

# Number of Findings by Problem Areas

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- 81 findings reported in total, 77 of which are federal findings, 4 of which are financial
- 19 -- Financial management & reporting
- 5 -- Eligibility
- 13 -- Allowability
- 6 -- Information systems, 4 at DHHS
- 13 -- Management of federal cash
- 8 -- Subrecipient monitoring
- 13 -- Other compliance issues & errors
- 4 -- Financial

# Conclusion

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- Audit completed fieldwork on the FY 2005 financial statements on December 9, 2005, and the final opinion will be completed before the end of January, in record time, possible GFOA award
- The Single Audit for FY 2005 is on target for completion by March 31, 2006, earlier than ever before.
- The Department of Audit performed several more audits in 2005: ACES, purchasing cards, and cash.
- An audit is critical: good news exists but is not reported.

# Findings by Known Questioned Costs

2004 Audit Finding	Program	Bureau	Finding Title	2003 Audit Finding	Known Questioned Cost	Likely Questioned Cost
04-45	Foster Care <sup>3,4</sup>	DHHS Program Accounting & Cash Management	Federal draws in excess of reported expenditures	03-59	\$12,400,000	
04-62	Various <sup>3,4</sup>	DHHS Program Accounting & Cash Management	Costs charged twice, cost allocation plan errors not detected	03-71	\$1,979,288	
04-50	SSBG <sup>3,4</sup>	DHHS Community Services Center	Funds not spent in accordance with earmarking requirements	03-68	\$1,900,000	
04-44	Foster Care	DHHS Program Accounting & Cash Management	Information system costs not charged in proportion with benefits received	03-60	\$530,340	
04-46	Foster Care / Adoption Assistance <sup>3,4</sup>	DHHS Program Accounting & Cash Management	Insufficient internal controls to ensure accurate reporting	03-61	\$420,224	
04-30	Immunization	DHHS Program Accounting & Cash Management	Inadequate controls procedures over reporting/period of availability		\$390,085	
04-36	Child Support	DHHS Program Accounting & Cash Management	Transfers for program services in excess of costs claimed	03-47	\$101,331	

# Findings by Known Questioned Costs

2004 Audit Finding	Program	Bureau	Finding Title	2003 Audit Finding	Known Questioned Cost	Likely Questioned Cost
04-52	Medicaid	DHHS Family Independence/Technology Services	Medicaid claims paid on behalf of ineligible recipients/inadequate controls		\$40,266	\$7,900,000
04-43	Foster Care <sup>3,4</sup>	DHHS Child & Family Services	Payments made on behalf of ineligible recipients	03-56	\$38,267	\$617,939
04-47	Adoption Assistance	DHHS Child & Family Services	Payments made to ineligible clients		\$34,831	\$202,444
04-42	Foster Care	DHHS Child & Family Services	Override of controls to ensure that costs are claimed correctly	03-58	\$19,196	
04-41	Foster Care	DHHS Child & Family Services	Duplicate costs paid		\$18,999	
04-55	Medicaid	DHHS Medical Services/Child & Family Services	Unallowable case management claim payments		\$7,462	\$10,816,331
04-59	Medicaid	DHHS Program Accounting & Cash Management	Negative cash balances continued			

# Findings by Known Questioned Costs

2004 Audit Finding	Program	Bureau	Finding Title	2003 Audit Finding	Known Questioned Cost	Likely Questioned Cost
04-65	Various	DHHS Program Accounting & Cash Management	Insufficient internal controls over cash management			
04-58	Medicaid	DHHS Program Accounting & Cash Management	Medicaid financial reports not accurate and not reconciled; matching controls insufficient			
04-40	Child Care Cluster <sup>3,4</sup>	DHHS Program Accounting & Cash Management	Federal financial reports not accurate	03-54		
04-27	Immunization	DHHS Health/Program Accounting & Cash Management	Inadequate controls over cash management and timely reimbursement	03-40		
04-67	Various <sup>4</sup>	DHHS Program Accounting & Cash Management	Administration of federal funds inadequate	03-30, 03-05		
04-74	Vocational Rehabilitation	DOL Rehabilitative Services	Inadequate controls to ensure period of availability compliance		\$13,025	
04-09	Various	DAFS Bureau of Information Services	Excess working capital reserve balance	03-11	\$788,965	



# Findings by Known Questioned Costs

2004 Audit Finding	Program	Bureau	Finding Title	2003 Audit Finding	Known Questioned Cost	Likely Questioned Cost
04-01	Capital Assets	DAFS Administrative & Financial Services	Inadequate controls for accurate recording	03-02		
04-02	Interfund payables & receivables	DAFS Administrative & Financial Services	Inadequate controls for accurate recording			
04-03	Interfund Transfers	DAFS Administrative & Financial Services	Inadequate controls for accurate reporting			
04-04	Lottery	DAFS Administrative & Financial Services	Insufficient controls over account receivable			